Metall Zug Group

Half-year Report 2015

Higher operating income – currency impact weighs on financial result

In the first half of 2015, gross sales of the Metall Zug Group were practically unchanged year-on-year at CHF 427 million. Despite the more challenging market conditions due to the abandonment of the euro minimum exchange rate, operating income (EBIT) rose by 16.7 % to CHF 31.2 million. The financial result was impacted by currency losses and the associated revaluations in the first half of 2015, thus falling to CHF –13.0 million. Net income reached CHF 10.3 million.

Dear Shareholders

The Metall Zug Group generated gross sales of around CHF 427 million in the first half of 2015 (H1 2014: CHF 429 million). This represents organic growth in local currencies of 0.5 %. While acquisitions contributed 0.2 % to growth, the currency effect had a negative impact of 1.2 %. The abandonment of the euro minimum exchange rate had serious consequences, though affected each of the individual Business Units to a different extent. The resulting decrease in competitiveness compared with competitors that produce to a larger extent in the euro-zone was a common factor. Although goods purchased abroad gradually became cheaper, the – often very swift and broad – price cuts by the competition cost the Group sales. The Metall Zug companies accepted the challenge. Measures introduced previously in anticipation of the abandonment of the euro minimum exchange rate were accelerated and reinforced. Price negotiations with suppliers and increased outsourcing succeeded in achieving the desired effect, contributing to an increase in operating income to CHF 31.2 million despite the challenging conditions. Compared with the prior year period (CHF 26.7 million), this represents a rise of 16.7 %.

The financial result was negatively impacted by currency losses, a poorer performance of the investments in securities as well as revaluations of financial assets, and came to CHF –13.0 million in the first half of 2015. In the first semester of 2014, the financial result had positively contributed by CHF 13.2 million.

The Metall Zug Group achieved net income of CHF 10.3 million in the reporting period (H1 2014: CHF 31.9 million).

The net cash position was CHF 455 million as at June 30, 2015, and therefore CHF 36.4 million lower than as at December 31, 2014, following the distribution of a dividend of CHF 26.9 million. The Metall Zug Group has a very solid balance sheet with equity of CHF 784 million (December 31, 2014: CHF 806 million) and an equity ratio of 76.2 %.

In the context of the above mentioned measures taken after the abandonment of the euro minimum exchange rate, the working hours for employees of V-ZUG AG, V-ZUG Kühltechnik AG and Schleuniger AG in Switzerland were increased. This extraordinary and temporary step was taken in response to the exceptional environment. The affected employees will directly (bonus for extra working hours) or indirectly (e.g. by strengthening the employee benefits system) participate in the result of their extra working hours, if the business unit's operating income (EBIT) is both positive and higher than in the previous year. In light of these measures, a provision of CHF 2.3 million was recognized in the interim financial statements. At the same time, the Group companies are to be strengthened by investments in research and development and in the work infrastructure.

Business Unit Household Appliances: Strong Performance Despite Increased Pressure on Prices

The Business Unit Household Appliances generated gross sales of around CHF 278 million, which represents a decline of 1.6 % to the prior year period (around CHF 282 million). Adjusted for the influence of acquisitions of 0.2 % and the currency effect of –0.3 %, this corresponds to a decline in local currencies of 1.5 %.

The Business Unit generated operating income (EBIT) of CHF 30.0 million, a rise of 9.8 % compared with the prior year period (CHF 27.3 million). The Business Unit Household Appliances was hit particularly hard by the currency shock of January 15, 2015. On the one hand, competitors with production facilities in the euro-zone rapidly and broadly lowered prices following the sudden appreciation of the Swiss franc. On the other hand, the advantages of lower prices paid for goods purchased abroad were partly offset by the meanwhile slightly stronger euro rate. The good result could be achieved thanks to the new product line introduced in the reporting period and the new V-ZUG appliances, which were well received by our customers.

In line with its new brand identity, V-ZUG has also modernized its logo and brand promise. “Swiss perfection for your home” stands for the established values that V-ZUG embodies: Swiss roots, perfection as our striving to deliver the best performance and service in every aspect of our business, and the slogan “for your home” showing that V-ZUG plays an important role in the everyday lives of our customers. V-ZUG was again named “Most Trusted Brand” in 2015, an award by consumer’s choice.

Following the market entry in Turkey and China, the company’s presence is now also strengthened in Australia with the opening of a Zugorama in Melbourne.

The SIBIRGroup started well following its move to Spreitenbach, again posting pleasing results in every segment.

The Gehrig Group is asserting itself well in a difficult market environment. The hotel, restaurant and catering sector is even more restraining investments after the Swiss National Bank’s decision. Moreover, cheap foreign appliances increasingly appear on the Swiss market. Two acquisitions were made – Schybig Gastro-Service AG and Horeka AG – that will allow the Gehrig Group to strengthen its market position in Switzerland.

A great leap forward was made in the integration of V-ZUG Kühltechnik AG and the planned modernization of the production plant, in particular the new, fully automated production of doors.

The construction of the new assembly and logistics building at the Zug site is making good progress. It is planned to set up joint research and test laboratories for the washers produced by V-ZUG, Gehrig and Belimed in order to create synergies and bundle know-how.

Business Unit Infection Control: Progress in Restructuring Efforts

Gross sales of the Belimed Group (Business Unit Infection Control) fell by 5.3 % to CHF 79.7 million (H1 2014: CHF 84.2 million). Given the currency effect of –3.7 %, a decline in local currencies of 1.6 % resulted. The drop in sales, ongoing restructuring and a less favorable sales mix burdened operating income (EBIT), which came to CHF –9.3 million, as in the prior year period.

The markets in which the Belimed Group operates remained largely stable or performed positively in the first half of 2015. In the Life Science Business Area, Belimed estimates market growth to a high single-figure. Revitalized demand was also observed in the Medical Business Area in certain markets, e.g. Europe. However, competition remains intense and customers are price-conscious. There are two main reasons why the positive market development is not reflected in Belimed’s sales figures: As part of the strategy to focus and differentiate, Belimed has streamlined its portfolio while withdrawing from non-profitable markets. It was accepted that this would involve a temporary decrease in sales. The development of the Service Business Area, on which a special focus is being placed, is pleasing.

On the product side, the new sterilizer for the Life Science Business Area was launched. This represents a milestone for Belimed as the device is entirely modular in construction. The newly designed user interface and steering panel guarantee customers maximum flexibility, efficiency and transparency.

On the operations side, the Belimed Group focused on implementing the restructuring measures that had been communicated at the beginning of the year. The new, functional organization structure, which has been in place since the beginning of 2015 has created clear responsibilities along the business processes. Company- and location-specific factors are becoming less important, enabling a “One Belimed” culture within the organization. Considerable preparatory work has been concluded in the context of the planned relocation of production.

In June 2015, the CEO of the Business Unit Infection Control acquired a further minority interest in Belimed AG from Metall Zug AG. This move underlines the entrepreneurial approach to the restructuring process. Metall Zug AG has the right to buy back this stake following expiry of a specified period of time and at pre-defined conditions.

Business Unit Wire Processing: Increase in Sales and Strong Growth of Fully Automatic CrimpCenter Series

Overall, the Schleuniger Group (Business Unit Wire Processing) posted an 11.2 % rise in gross sales to CHF 70.6 million in the first six months of 2015 (H1 2014: CHF 63.5 million). Excluding the impact of an acquisition of 0.9 % and the currency effect of –1.9 %, organic growth in local currencies amounted to 12.2 %. The positive market environment is mostly driven by the automotive and electronics sectors. In addition, Schleuniger significantly strengthened its position with the key accounts in the automotive industry in the first half of 2015. Operating income (EBIT), standing at CHF 9.0 million, was 11.5 % lower than in the prior year period (CHF 10.2 million). It was negatively affected by higher expenditures for product optimization and development.

As a reaction to the abandonment of the euro minimum exchange rate, Schleuniger introduced a number of measures to increase productivity and cut costs. However, these measures will have a delayed impact and will become noticeable mainly in and after the second half of the year.

The two new products announced early that year – the CoaxCenter 6000 and the Multistrip 9480 – were successfully launched in the market. The trend toward greater automation contributed to this success. Schleuniger's proprietary software allows customers to interlink their production facilities, creating an optimized overall solution for customers. In addition, the importance of a global service organization continues to increase.

Various products at the new production site in China have achieved CE certification, which allows worldwide marketing.

Schleuniger has acquired Cirris Solutions GmbH in Jettingen (Germany) in the context of expanding the value chain. The company specializes in test automation and the production of test applications for sensor and data transmission cables as well as electromechanical components. Its fully automatic testing machines make Cirris Solutions a global market leader for applied testing technology. For Schleuniger, this acquisition marks the next logical step towards integrating test technology in its portfolio of products and competencies.

Outlook

The Metall Zug Group expects the market environment to remain challenging and uncertain in the second half of 2015. The measures introduced following the abandonment of the euro minimum exchange rate will be pursued and optimized. Given the strong second half of 2014, a similar rise in operating income cannot necessarily be expected for the second semester of 2015.

Provided that the business environment and the currency situation do not significantly change and no special events occur, the Metall Zug Group expects operating income (EBIT) for the full year 2015 to be on a par with the previous year. The financial result for the year 2015 particularly depends on how the financial markets and currencies develop.

Heinz M. Buhofer Chairman of the Board of Directors	Dr. Jürg Werner CEO

Consolidated Income Statement

in CHF 1000	H1 2015	H1 2014
Gross sales	426790	428876
Sales deductions	–8842	–11 143
Net sales	**417948**	**417733**
Changes in inventories	16489	11 798
Other operating revenue	2780	3002
Operating revenue	**437217**	**432533**
Cost of materials	–152974	–154915
Personnel expenses	–174512	–170179
Depreciation on tangible assets	–16030	–16696
Amortization on intangible assets	–2553	–2274
Other operating expenses	–59943	–61 727
Operating expenses	**–406012**	**–405791**
Operating income (EBIT)	**31205**	**26742**
in % of gross sales	7.3 %	6.2 %
Financial income	3446	14835
Financial expenses	–11034	–1697
Result of associated companies	–5391	43
Financial result	**–12979**	**13181**
Income before taxes	**18226**	**39923**
Taxes	–8099	–8032
Non-controlling interest	180	–26
Net income	**10307**	**31865**
in % of gross sales	2.4 %	7.4 %
Net income per type A registered share (in CHF)	2.34	7.21
Net income per type B registered share (in CHF)	23.38	72.07
Employees	3778	3551

Consolidated Balance Sheet

Assets

in CHF 1000	06.30.2015	12.31.2014
Cash and cash equivalents	190851	223235
Securities	269548	273432
Trade receivables	102895	111889
Other receivables	21620	18010
Inventories	146522	132465
Prepaid expenses	6214	4439
Current assets	**737650**	**763470**
Land	906	385
Land and buildings	162226	161304
Plant and equipment	60722	61959
Prepayments and assets under construction	125	1287
Other tangible assets	19908	20754
Tangible assets	**243887**	**245689**
Employer's contribution reserves	15299	15077
Associated companies	1088	5255
Other financial assets	20295	13891
Financial assets	**36682**	**34223**
Software	10485	11533
Other intangible assets	43	50
Intangible assets	**10528**	**11583**
Fixed assets	**291097**	**291495**
Total assets	**1028747**	**1054965**

Liabilities and Shareholders' Equity

in CHF 1 000	06.30.2015	12.31.2014
Current financial liabilities	4 569	4 163
Trade payables	37 648	37 712
Other current liabilities	69 317	74 064
Accrued liabilities	50 677	47 058
Current provisions	36 436	37 225
Current liabilities	**198 647**	**200 222**
Long-term financial liabilities	859	1 125
Other long-term liabilities	7 873	8 485
Long-term provisions	37 501	39 487
Non-current liabilities	**46 233**	**49 097**
Total liabilities	**244 880**	**249 319**
Share capital	11 250	11 250
Capital reserves	342 335	342 335
Treasury shares	–18 779	–18 779
Retained earnings	449 441	469 807
Non-controlling interest	–380	1 033
Shareholders' equity	**783 867**	**805 646**
in % of total assets	76.2 %	76.4 %
Total liabilities and shareholders' equity	**1 028 747**	**1 054 965**

Consolidated Statement of Cash Flows

in CHF 1000	H1 2015	H1 2014
Net income before non-controlling interests	10127	31891
Financial result (net)	7588	–13138
Depreciation	18583	18970
Result of associated companies	5391	–43
Value adjustments of financial assets	0	47
Net changes in provisions	–236	67
Income tax	7640	8001
Other non-cash items	2248	825
Cash flow	**51341**	**46620**
Change in securities	–472	14059
Change in trade receivables	5592	6658
Change in other receivables and prepaid expenses	–1575	2654
Change in inventories	–21289	–20678
Change in trade payables	93	13342
Change in other current liabilities and accrued expenses	2993	5425
Interests paid	–71	–144
Taxes paid	–13808	–14503
Cash flow from operating activities	**22804**	**53433**
Investments in tangible assets	–19516	–15204
Investments in financial assets	–1341	–631
Investments in intangible assets	–1494	–1107
Investments in Group companies, net of cash acquired	–6629	0
Disposals of tangible assets	107	358
Disposals of financial assets	1795	336
Disposals of intangible assets	1	0
Dividends received	0	0
Interests received	86	74
Cash flow from investing activities	**–26991**	**–16174**
Change in long-term financial liabilities	–1820	–331
Purchase of treasury shares	0	0
Dividend	–26892	–27004
Cash flow from financing activities	**–28712**	**–27335**
Currency translation effects	109	–100
Change in “Net cash and cash equivalents”	**–32790**	**9824**

Changes in Shareholders' Equity

in CHF 1000	Share Capital	Capital Reserves	Treasury Shares	Retained Earnings	Accumulated Currency Translation Differences	Total Retained Earnings	Non-controlling Interests	Total
Balance on 01.01.2014	**11 250**	**342 335**	**–14 096**	**422 466**	**–15 122**	**407 344**	**1 009**	**747 842**
Dividend				–27 004		–27 004		–27 004
Purchase of treasury shares			–4 683					–4 683
Acquisitions				383		383		383
Associated companies				–73		–73		–73
Currency translation effects					–158	–158	–8	–166
Net income				31 865		31 865	26	31 891
Balance on 06.30.2014	**11 250**	**342 335**	**–18 779**	**427 637**	**–15 280**	**412 357**	**1 027**	**748 190**
Balance on 01.01.2015	**11 250**	**342 335**	**–18 779**	**481 815**	**–12 008**	**469 807**	**1 033**	**805 646**
Dividend				–26 892		–26 892		–26 892
Purchase of treasury shares								
Acquisitions				–4 875		–4 875		–4 875
Associated companies				8 358		8 358		8 358
Purchase of non-controlling interest				–1 618	–24	–1 642	–979	–2 621
Sale of non-controlling interest				79	95	174	–131	43
Currency translation effects					–5 796	–5 796	–123	–5 919
Net income				10 307		10 307	–180	10 127
Balance on 06.30.2015	**11 250**	**342 335**	**–18 779**	**467 174**	**–17 733**	**449 441**	**–380**	**783 867**

Segment Information

By Business Unit

	Net Sales to Third Parties		Operating Income (EBIT)		EBIT in % of Net Sales	
in CHF 1000	**H1 2015**	**H1 2014**	**H1 2015**	**H1 2014**	**H1 2015**	**H1 2014**
Household Appliances	271 492	274 588	29 970	27 300	11.0 %	9.9 %
Infection Control	77 837	81 259	–9 339	–9 264	–12.0 %	–11.4 %
Wire Processing	68 619	61 886	8 993	10 163	13.1 %	16.4 %
Corporate	0	0	1 597	–1 449	N/A	N/A
Consolidation	0	0	–16	–8	N/A	N/A
Total	**417 948**	**417 733**	**31 205**	**26 742**	**7.5 %**	**6.4 %**

Notes

General

The Metall Zug Group's unaudited interim financial statements as at June 30, 2015, were prepared in compliance with Swiss GAAP FER 31 and on the basis of historical cost. Swiss GAAP FER 31 has been applied for the first time in the consolidated financial statements 2014. The rules of Swiss GAAP FER 31 in relation to the interim financial statements have been applied for the first time in these interim financial statements as at June 30, 2015. As a consequence of the new rules, the income statement, balance sheet, cash flow statement and equity statement are presented in a more detailed way. However, there is no financial impact on the balance sheet or income statement due to the new rules.

The exchange rate at the balance sheet date is uniformly applied to balance sheets while the average exchange rate during the period under review is used for income statements. The principles of consolidation and valuation are unchanged compared with the previous year. This half-year report is published in German and English. In case of discrepancies between the two versions, the German print version shall prevail.

Changes in the Scope of Consolidation

Effective January 1, 2015, V-ZUG (Changzhou) Special Components Co., Ltd. (CN), commenced business. In the first semester 2015 the companies Schybig Gastro-Service AG, Küssnacht SZ, Horeka AG, Küssnacht SZ, and Cirris Solutions GmbH, Jettingen (DE), have been acquired.

As of March 6, 2015, the remaining 30 % non-controlling interest of Schleuniger Haofeng (Tianjin) Co., Ltd. held by a third party were repurchased.

On June 12, 2015, another 0.69 % of non-controlling interest in Belimed AG, Zug, (as of October 7, 2014: 1.38 %) were sold by Metall Zug AG to the CEO of the Infection Control Business Unit. Metall Zug AG has the right to buy back this non-controlling interest based on a defined calculation method at the occurrence of certain conditions or after a set period of time.

In May 2015, a capital increase of Schlatter Industries AG, Schlieren, took place. As a result of the partial exercise of subscription rights as well as the sale of a number of shares and subscription rights, the stake of Metall Zug AG initially decreased from 27.66 % to 18.79 % and to 18.13 % following a capital increase from authorized capital in June 2015. The necessary change in accounting method (so far equity accounting, new valuation at purchase value deducting any economically necessary valuation allowance) required a value adjustment of the participation including the recycling of the goodwill initially offset with equity. This resulted in a loss from associated companies of TCHF 5322, which is included in the financial result.

Badwill V-ZUG Kühltechnik

In relation to the acquisition of the business activities of the refrigeration equipment unit of AFG Arbonia-Forster Holding AG in March 2013, a badwill of TCHF 11389 resulted. In the first semester 2015 this badwill was reduced against the income statement by TCHF 800 (first semester 2014: TCHF 0). Of the total remaining badwill of TCHF 8989 as of June 30, 2015, TCHF 1600 are reported as Other current liabilities and TCHF 7389 as Other long-term liabilities.

Seasonality

Seasonal impacts vary amongst the Business Units. The Business Units Household Appliances and Wire Processing used to have slightly stronger second semesters in the past years. In the Business Unit Infection Control the net sales used to be clearly higher in the second semester. The portion of net sales realized in the first semester 2014 compared to the full year 2014 was 48 % in the Business Unit Household Appliances, 40 % in the Business Unit Infection Control and 49 % in the Business Unit Wire Processing. The seasonality of the reporting segment Corporate is not material. The second semester 2014 had developed very strongly at the Business Units Household Appliances and Wire Processing as a result of the favorable economic environment. Therefore, the year 2014 cannot be considered a pattern for the seasonality in general.

Events After the Balance Sheet Date

There were no events between June 30, 2015, and August 24, 2015, that would need to be disclosed under this heading.


Household Appliances
Infection Control
Wire Processing

Metall Zug AG
Industriestrasse 66, CH-6301 Zug
Phone +41 58 768 10 20, Fax +41 58 768 10 29
info@metallzug.ch, www.metallzug.ch